

## **Harmonization of AASB 1010/AAS 10 Revaluation of Non-Current Assets” With AIS 16 ‘Property, Plants, and Equipment’ and the Perception of Likely Affected Parties**

**Leroy Tim Ruhupatty\***

*Fakultas Ekonomi Universitas Klabat*

In June 1998, Australian Accounting Standards (AASB) issued Exposure Draft (ED) 92 ‘Revaluation of Non-current Assets’. ED 92 was issued with the purpose of harmonizing AASB 1010 and Australian Accounting Standards (IAS) 16 ‘Property, Plant, and Equipment’. Findings of past studies on harmonization of accounting standards suggested that accounting practices were partly influenced by unique firm characteristics. There were several requirements proposed in ED 92 that would potentially affect Australian entities if these proposed requirements proposed in ED 92 suits Australian business environment and Australian firms. The perception of likely affected parties to ED 92 were further related to the December 1999-issued AASB 1041/AAS 38 (these standards were based on ED 92). It was found that respondents to ED 92 supported any harmonization, however, they did not support any harmonization program for the sake the harmonization program would no improve the quality, usefulness, and comparability of financial information.

Key words : asset revaluation, accounting harmonization; fair value

### **INTRODUCTION**

Exposure Draft (ED) 92 ‘Revaluation of Non-current Assets’ was issued in June 1998 as part of Australian Accounting Standards Board’s (AASB) effort to harmonize its standard on asset recognition and measurement (AASB) effort to harmonize its standard on asset recognition and measurement (AASB 1010/AAS 10) with the International Accounting Standards’ (IAS) IAS 16 ‘Property, Plant, & Equipment’. The purpose of this paper is to examine the perception of the likely affected parties to the proposed harmonization of AASB 1010/AAS 10 to IAS 16. To achieve this objective, submissions to ED 92 were closely examined. To improve the quality and usefulness of accounting information, standard setters in regional as well as global level have been trying to reduce the variations in accounting practices. It is hoped that this effort would improve the comparability of financial information (Tahman & Al, 2002; Sharpe & McGregor, 1993). Other empirical studies has found difficulties associated with harmonizing accounting practices. It was found harmonization might have detrimental effect on the informative-ness of local financial information (Barth & Clinch, 1999). Other studies found that firm characteristics could have influence on accounting practices (Chow & Wong-Boren, 1987). These findings raise concerns to the possibility of firms being forced to have sub-optimal financial reporting if they are faced with financial reporting regulations that do not suit their particular circumstances. Despite some concerns, harmonization of accounting standards is

considered important to improve comparability of financial statements, thus international capital flow can be better facilitated, and the cost of preparing financial statements for multinational corporations can be reduced (Carey, 1999; Choi & Mueller, 1992).

b. ED 92 ‘Revaluation of Non-current Assets’. The following sub-topics describe some of the issues raised in Ed 92. B.1. Recoverable Amount Test. It was proposed that a standard on asset impairments would not longer be included in AASB 1010/AAS 10, since AASB and public sector Accounting Standards Board (PSASB) had a project to develop a separate standard on asset impairment which during the release of ED 92 was still included in AASB 1010/AAS 10. However, it was also proposed that while waiting for the completion of the project, the existing requirements of test for asset impairment included in AASB 1010/AAS 10 still be retained. B.2 Fair Basis for Revaluation. To conform to IAS 16, non-current assets have to be measured at either cost or fair value. If the asset is a specialized plant and equipment of there is no quoted market price are deemed the best evidence of fair value. If the asset is a specialized plant and equipment of there is no quoted market price, fair value would normally be determined by reference to depreciated replacement cost. B.3. Regular Revaluation. It was proposed that revaluations be done in adequate regularity so that the carrying amount of a non-current assets. Some non-current assets may experience frequent fluctuation, thus requiring annual revaluations, while a three-year revaluation is considered sufficient for non-current assets that

experience infrequent fluctuation. B. 4. progressive basis. To be consistent with IAS 16, ED 92 proposed assets within a class of non-current assets to be revalued simultaneously, thus a selective revaluation could be avoided. However, where the carrying amount of each asset within the class does not differ materially from its fair value, the class of assets may be revalued progressively. B.5. offsetting of Revaluation Increments and Decrements. A net revaluation increment of a class of non-current assets is required by AASB 1010/AAS 10 to be credited to an asset revaluation decrement of a class of non-current assets is required to be debited to profit and loss statement; except that a credit balance exist in the asset revaluation reserve in respect of that same non-current assets, the net decrement grossed up for any related recognized current tax and deferred tax must be debited to the asset revaluation reserve.

IAS 16 requires increments and decrements of a certain non-current asset to be offset against that particular non-current asset, regardless of whether there could be credit or debit balance arising from other asset within the same class of non-current asset. With the sole purpose of harmonization, ED 92 proposed that the treatment of increment and decrement be consistent with IAS 16 for AASB 1010 (private sector) while the requirements in AAS 10 (public sector) retained. B. 6. Additional Disclosures from IAS 16. For the purpose of harmonization, ED 92 requires the disclosure of the carrying amount that would have been recognized had the asset been measured at cost less any related accumulated depreciation. B. 7. Special Treatments for Public Sector Entities which Apply AAS 10 ED 92 proposed the following special treatments for public sector entities that apply AAS 10: 1. Transitional provision which would: a. delay the application of frequent revaluation requirement for entity that adopted fair value basis for measuring non-current assets. B). continue to allow the use of progressive revaluations, even when the carrying amounts of

assets differ materially from their fair values. 2. Continue to require revaluation increments and decrement to be accounting for on a class of assets basis. 3. When a class of non-current assets is measured on the fair value basis, public sector entities will be exempted from disclosing the carrying amount that would have been recognized had the assets been measured on the cost basis.

These exemptions were proposed for the following reasons: Public sector entities that applied AAS 10 are required by AASB 31 'Financial Reporting by Governments', AAS 29 'Financial Reporting by Government Departments', and AAS 27 'Financial Reporting by Local Government' to adopt the comprehensive reporting of non-current assets. Many had just adopted or were in the process of adopting comprehensive reporting, thus it was deemed by the Boards that these entities would be unduly burdened if they were not exempted. The treatment of increment and decrement was deemed as asymmetric, in the sense, net decrement should be recognized in the profit and loss, while net increment in balance sheet. The proposal to treat increment and decrement on individual basis was thought that it would pose more difficulties for public sector entities that were adopting accrual budgeting that conforms to their general purpose financial reporting. The requirement to disclose carrying amount of non-current assets been measured on the cost basis was deemed to have no useful information, and would only add burden to public sector entities that were adopting comprehensive reporting of non-current assets. For these reasons, it was proposed that public sector entities should be exempted from some of the amendments proposed in ED 92. C. Comments to ED 92. ED 92 was issued in June 1998. The closing date for submission of comments was 30<sup>th</sup> of sources. In total, there were 42 submission; most of them came from the corporate sector. The number of submissions from each source is presented in Table 1.

Table 1. List of Respondents to ED 92

Groups of Respondents	Number of submissions
Corporate Sector ( Private and Public )	18
Institute and professional bodies	8
Accounting firms and auditing Services	6
Government	6
Academician	3
Accounting standard setting bodies	1
Total submissions	42

Most of the institute and professional bodies were likely to be involved in the property sector, and thus had large stake at the proposed changes contained in ED 92. The corporate sector, which is understandable, since there were proposals in ED 92 that applied to public sector entities, which were government owned. There was also submission of comment from Accounting Standards Board ( ASB ). Both ASB and AASB are the founding members of the IASC, and are both in the process of harmonizing their standards with their IASC counterparts. Comments of these various interested bodies to the questions posed are presented in the following section: C.1 Cost basis of fair value should be adopted for measuring a class of non-current assets. Majority of respondents agreed to this proposal, however, some had their reservations. There were concerns that the benefit arising from mandatory revaluation process. There were also concerns that firms which were cross-listed in the United States of America (US) stock market, since the US accounting standards prohibit any upward revaluation of non-current assets. Another issue was whether assets purchased in between regular revaluation period can be carried at cost, or should they be revalued to fair value at the end of every interim period. The respondents who disagreed argued that the word 'fair value' introduces an element of subjectivity. ED 92' definition of fair value also requires the existence of 'active market', which may not always exist. They also argued that this proposal make comparability difficult. they suggested that non-current asset should be reported at cost and the fair value be disclosed. C.2 When Fair Value is adopted; revalued amount should be kept up to date. All the respondents agreed to this issue. However, there are concerns this maybe onerous. As proposed, they agreed that a test of asset impairment contained in AASB 1010/AAS 10 retained until the appropriate standard is released. C.3 All entities would account for increment and decrement on an individual basis, except for public sector entities applying AAS 10.

Majority of the respondents disagreed to this issue arguing that that this proposal is a departure from the notion for a common set of accounting standards for both private and public sector companies. They argued that there should be an internal harmonization before an external harmonization. Another argument is that treatment of increments and decrements on individual basis would not improve financial reporting, since it would overload financial statements user with information. They proposed that the then current treatment be retained. There were also concerns in regards to the asymmetric treatment of increment and decrement , which was argued to reduce the benefit that arises from the

concept of diversification, where the losses from one investment in one asset are offset by gain from another asset. There were a few who supported this proposal, arguing that the requirement minimize the potential danger of management manipulating results by concealing the effect of under performing asset. Furthermore, it was argued that recognizing for the particular class of assets could be consistent with accounting standards in USA, Japan and Canada.

C.4 All entities, other than public sector entities applying AAS 10, would be required to disclose cost-based information where fair value is adopted for measuring a class of non-current assets. More than half of the respondents disagreed to this proposed requirement. They argue that this requirement would be too onerous without providing any useful information, particularly, because the purpose of fair value reporting is to provide current rather than historical information. Some respondents supported the proposed requirements merely for the sake of harmonization. Others agreed that it would help improve the comparability of financial information prepared under Australian standards with those of US, Canada and Japan. C.5 Transitional provisions for entities electing to revert from revaluation basis to cost basis. ED92 proposed firms to either measure and report non-current assets at cost or current value. When a firm opted to report non-current assets at cost, there are two approaches that could be used: first, use carrying amount as cost, or make retrospective adjustments to measure non-current assets at their cost of acquisition less any accumulated depreciation as if they had always been measured using cost basis. C.6 Entities are prohibited from reverting to cost basis after the initial adoption of the standard. Majority of the respondents agreed to this proposal with the reason that it would provide consistency. However, there were some concerns that no provisions were made for future possibilities of entities being unable to revalue, for example because of future acquisition, divestment or mergers. C.7 Disclosures of whatever carrying amount of a revalued asset was determined in accordance with an independent valuation or a director's valuation and the name of the valuers. The respondents agreed that the basis of revaluation has to be disclosed ( whether it is made by director or independent valuer ).

C8. Proposed differences in treatment toward private and public sectors with respect to the treatment of revaluation increments and decrements, the disclosure of cost based information where a revaluation basis is adopted, and the transitional provisions relating the requirement to keep asset values up-to-date. Half of the respondents argued that there should be only one standard applicable in Australia; both for

private and public sector entities. The rest of the respondents agreed, however, they think that the special treatment should be a temporary one, and within a reasonable time, this proposed exemption should be reviewed. C.9 Harmonization of AASB 1010/IAS 10 with IAS for the sake of comparability with IASC accounting standards, irrespective of views in point C.1 to C.8. majority of the respondents agreed that for sake of comparability, AASB 1010/AAS 10 should be harmonized with IAS 16. However, they argued that harmonization is not an end to it's thus, it is essential to ensure that the process that time pressures and limitation in resources may effect the care and clarity of some proposal that were being prepared. Some respondents disagreed to the adoption of IAS standards, which are less stringent than AASB'S and suggested that AASB should lobby IASC to modify their requirement incorporate more appropriate requirements. Some disagreed to a blind harmonization program. They even suggested that before IASC's standard could be accepted in Australia, it has to be accepted by the US's SEC.

## CONCLUSION

In December 1999, AASB 1041/AAS 38 'Revaluation of Non-current Assets' which were based on ED 92 issued, and they superseded AASB 1010/AAS 10, which were then re-issued, under different title: 'Asset Impairment' ( Australian Accounting Standard Board 2001 ). Many of the features of ED 92 were retained. Some of the comments were sound enough to influence the Boards decision as a result some part of the proposal was not retained. In general, respondent supported the harmonization program, however, they did not support any 'blind' harmonization. Harmonization was supported provided it could improve the quality of financial information and improve the comparability of financial information ( Australian Accounting Research Foundation, 1998). Some of the comments and suggestions made as a responseto ED 92 were not immediately incorporated, but rather, took some time before they were incorporated into accounting standards. On the othr hand, many other comments and suggestions were considered by the Boards and eventually were incorporated into a standard.

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